

VIRGINIA FOUNDATION FOR HEALTHY YOUTH

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**



AUDIT SUMMARY

Our audit of the Virginia Foundation for Healthy Youth for the year ended June 30, 2010 found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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FOUNDATION HIGHLIGHTS

Foundation Overview

The Virginia Foundation for Healthy Youth (Foundation) annually receives ten percent of the Commonwealth of Virginia's (Commonwealth) portion of funds from the Master Settlement Agreement (MSA) with tobacco manufacturers. A Board of Trustees (Board), comprised of 23 members, governs and administers the Foundation. The Board establishes the Foundation's budget and specific criteria and procedures for distributing money in the Virginia Tobacco Settlement Fund. The Foundation uses its funding to finance educational and awareness programs on the health effects of tobacco use by youth, and on childhood obesity. The Foundation also uses funds to conduct research related to the prevention of childhood obesity and tobacco use among youth.

The Board also approves members of its four Regional Advisory Boards. The Regional Advisory Boards provide a local connection between the Foundation and communities throughout the Commonwealth. The Advisory Boards oversee the review process to select recipients that receive program grants to fund prevention programs that discourage tobacco use by minors and help mitigate childhood obesity. The Foundation funds a statewide marketing campaign to reduce the use of tobacco among youths.

The Department of Health acts as the fiscal agent for the Foundation and provides fiscal and payroll services. The Foundation employs an executive and deputy director, a business manager, and 11 staff members. The staff includes four regional grant program administrators. These administrators are responsible for managing the program grants issued throughout the Commonwealth.

Financial Operations

The Board develops the Foundation's budget using a modified-accrual basis of accounting. At year-end, the Foundation had cash and cash equivalents of \$10.7 million and grants payable of \$440.9 thousand. In fiscal year 2010, like last year, the Foundation did not use its line of credit to cover expenses due before its April MSA payment. Currently, management does not expect to use the line of credit in upcoming years.

National tobacco manufacturers provide Budgeted Master Settlement Agreement revenue to a third party financial analysis company. MSA projected revenue was \$14.8 million for 2010, actual funds available are less as a result of tobacco manufacturers continuing to hold ten percent (roughly \$1.7 million) of the MSA payments in escrow. Tobacco manufacturers are withholding the ten percent of the total MSA payments to states because they are losing market share to those manufacturers that did not participate in the MSA. Currently, the issue is in litigation and the Foundation is still unsure whether they will ever receive all or a part of these withheld funds. The Foundation reduced the amount of program grants awarded and marketing contract amounts in fiscal year 2010, as they have in prior years, to continue to absorb this reduction in funding.

Over the past three years, MSA payments have fluctuated due to the rise and fall of tobacco sales, requiring the Foundation to adjust its budget accordingly. To handle such unexpected changes in the budget, the Board reviews the budget at every board meeting to discuss and approve any changes.

The Staff develops a three-year budget plan that the Board considers a year in advance of its effective date so the Board can monitor long-term programs. The Staff developed and presented the three-year budget plan for Fiscal years 2010, 2011 and 2012 at the June 2008 Board meeting. Schedule A is a complete Schedule of Revenues, Expenditures, and Changes in Fund Balances Budgetary Comparison.

Marketing Campaign

In 2001, the Foundation launched a statewide multimedia marketing campaign called the Y-Campaign. The mission of the Y-Campaign is to reduce youth tobacco use in the Commonwealth by empowering Virginia youth to choose a healthy lifestyle. The campaign integrates messages through a multi-media marketing effort, including television, radio commercials, an interactive web site (www.ydouthink.com), internet banner ads, outdoor and cinema advertising, a series of music festivals, and street marketing activities.

In order to achieve the goals of the Y-Campaign the Foundation administers the following contracts. The marketing contracts cover the period of July 1, 2009 through June 30, 2010.

<u>Contract</u>	<u>Amount</u>
Barber Martin Advertising	\$4,000,000
Rescue Social Change Group (Y-Campaign)	800,000
Rescue Social Change Group (web-site/media)	225,000
Southeastern Institute of Research	<u>175,000</u>
Total in Marketing Contracts	<u>\$5,200,000</u>

Barber Martin Advertising purchases media to place current and new advertisements in various medium outlets, develops new creative concepts and ideas, and produces ideas into finished advertising deliverables. The target market is 10 to 17-year olds across the Commonwealth.

Rescue Social Change Group schedules and manages all campaign events, employs personnel to conduct the events, and develops new concepts and ideas for reaching Virginia's youth. The focus of the street marketing effort is to provide strategic support for the Y-Campaign by directly interacting with 10 to 17-year olds across the Commonwealth. Rescue Social Change Group also provides the service of website development and management, interactive media development, and interactive media planning, purchasing, and placement for the Y-Campaign. Market Decisions evaluates the effectiveness of the Y-Campaign by conducting tracking studies twice a year and preparing the Foundation with reports for each study.

The Foundation monitors the marketing contracts by tracking performance through monthly, quarterly, and annual reviews. Contract renewals only occur if a vendor achieves the performance standards stipulated in their contracts.

Program Grants

The Foundation awards grants to schools, houses of faith, and other entities located in the Commonwealth for the purpose of implementing tobacco prevention programs. The programs address issues related to tobacco use including prevention education, tobacco cessation, early tobacco intervention and reduction, advocacy, youth empowerment, and social skills building. The Foundation issued a total of \$10.6 million in grants for fiscal year 2010 to 98 programs. The Foundation awarded 56 three-year grants with a total obligation of \$8.8 million, 38 single-year grants with a total obligation of \$1.5 million, and four targeted program grants with a total obligation of \$175 thousand. The Foundation monitors and administers these grants to ensure recipients meet the program objectives.

Research Grants

The Foundation awarded seven, three-year research grants among seven departments at three Universities in fiscal year 2010. The grants assist implementation of collaborative research projects for preventing the use of tobacco and substance abuse by youths. Research topics cover areas such as etiology of youth tobacco use, psychosocial aspects, genetic predisposition to nicotine addiction, progression from experimentation to addiction, and specific youth interventions.

The Foundation awarded research grants to the following institutions in 2010: Four departments at Virginia Commonwealth University received four grants totaling \$2 million over three years; two departments at the University of Virginia received two grants totaling \$1.2 million over three years; and George Mason University received one grant totaling \$600,000 over three years.

Enforcement and Evaluation

Enforcement of tobacco access laws is another component of the Foundation's comprehensive youth tobacco use prevention program. The Foundation continues to contract with the Department of Alcoholic Beverage Control (ABC) to conduct compliance checks on tobacco product sellers. The contract amount is \$350,000 annually and is included in program expenses. The Foundation also contracts with VCU and Market Decisions to evaluate the effectiveness of programs and marketing campaigns respectively at a combined annual cost of \$365 thousand.

VIRGINIA FOUNDATION FOR HEALTHY YOUTH
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGETARY COMPARISON
For the Fiscal Year Ended June 30, 2010

Schedule A

	<u>Actual</u>	<u>Budget</u>	<u>Variance over (under)</u>
Revenues:			
Interest on securities	\$ 73,713	\$ 145,000	\$ (71,287)
Proceeds from security transactions	3,015	-	-
Master settlement payments	<u>11,629,393</u>	<u>14,840,847</u>	<u>(3,211,454)</u>
Total revenues:	<u>11,706,121</u>	<u>14,985,847</u>	<u>(3,279,726)</u>
Expenditures:			
Administration	1,442,977	1,575,000	(132,023)
Inter-agency expense	65,000	90,847	(25,847)
Dues and subscriptions	500	-	500
Expenses for securities lending	3,015	-	3,015
Marketing	4,687,540	5,250,000	(562,460)
Program expense	4,635,173	5,370,000	(734,827)
Research and evaluation	1,749,024	2,225,000	(475,976)
State general fund transfers out	<u>172,992</u>	<u>175,000</u>	<u>(2,008)</u>
Total expenditures	<u>12,756,220</u>	<u>14,685,847</u>	<u>(1,929,627)</u>
Revenues over (under) expenditures	<u>\$ (1,050,099)</u>	<u>\$ 300,000</u>	<u>\$ (1,350,099)</u>
Fund balance, July 1, 2009	<u>10,928,125</u>		
Fund balance, June 30, 2010	<u>\$ 9,878,026</u>		



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

September 30, 2010

The Honorable Robert F. McDonnell
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Foundation for Healthy Youth** (Foundation) for the year ended June 30, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Foundation's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Foundation's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Master Settlement Agreement revenue
Contract and grant management
Vendor payments
Payroll
Foundation's board approved budget

We performed audit tests to determine whether the Foundation's controls were adequate, were placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, vouchers, payroll files, marketing and research contracts, program grants, and observation of the Foundation's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Foundation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Foundation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting systems and the Foundation's records.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on October 7, 2010.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

AWP/alh

VIRGINIA TOBACCO SETTLEMENT FOUNDATION

Marty Kilgore, Executive Director

BOARD OF TRUSTEES

As of June 30, 2010

John H. O'Bannon, Chairman

Edda Collins Coleman, Vice Chairman

Sanjeev K. Aggarwal, M.D.

Curtis Coleburn

Kevin R. Cooper, M.D.

Philip A. Dawson, M.D.

Rickie E. Fulcher

Don Gehring

The Honorable Emmett W. Hanger Jr.

Stacey A. Hinderliter, M.D.

Patrick J. Hughes Sr.

John O. James Jr.

The Honorable William R. Janis

Patti Kiger, Ph.D.

Michael C. Kontos, M.D.

James Lund McDaniel, M.D.

Keith Howard Newby Sr., M.D.

The Honorable Ralph Northam, M.D.

Karen Remley, M.D.

Claudia Tellez

Rosa I. Villoch-Santiago

Youth Members

Logan Holland

Corey Howell